EMERGENCY SUPPLEMENTAL/$18 Billion for the IMF

SUBJECT: **Emergency Supplemental Appropriations Bill for fiscal year 1998 . . . S. 1768. McConnell modified amendment No. 2100, as amended.**

ACTION: AMENDMENT AGREED TO, 84-16

SYNOPSIS: As reported, S. 1768, the Emergency Supplemental Appropriations Bill for fiscal year 1998, will provide $3.109 billion in mandatory and discretionary budget authority, including $1.992 billion in emergency funding for the Department of Defense, $561.9 million to respond to natural disasters and other emergencies, and $278.0 million in other discretionary supplemental appropriations. A total of $273.9 million in rescissions and other offsets will also be enacted.

The McConnell modified amendment, as amended, would provide $18 billion in additional budget authority for the International Monetary Fund (IMF). (Section 314 of the Balanced Budget Agreement specifically permits an increase in IMF funding to be outside of the budget authority caps (ordinarily it is scored under those caps). IMF outlays are not scored under the outlay caps.) Of that $18 billion, $3.5 billion would be for the New Arrangements to Borrow fund, which is the IMF's emergency lending fund, and $14.5 billion would be for an increase in the United States' quota subscription. Lending restrictions would apply to the latter funding. First, the Secretary of the Treasury would have to certify that the group of seven (G-7) IMF countries (the major IMF shareholders, specifically, the United States, Japan, Germany, France, Italy, the United Kingdom, and Canada) had publicly agreed to condition and would seek to condition the receipt of IMF loans on the recipient countries:

- reducing trade barriers (at a minimum countries would have to comply with their international trade commitments); and
- eliminating the practice or policy of government-directed lending on non-commercial terms, or market-distorting subsidies, to favored industries, enterprises, parties or institutions.

The amendment would also require the following:

- the United States would be directed to use its influence at the IMF to attempt to condition loans on recipients taking actions to remove discriminatory treatment between foreign and domestic creditors in their debt resolution procedures;

(See other side)

YEAS (84)				NAYS (16)		NOT VOTING (0)	
Republican (41 or 75%)		Democrats (43 or 96%)		Republicans (14 or 25%)	Democrats (2 or 4%)	Republicans (0)	Democrats (0)
Bennett	Hutchinson	Akaka	Johnson	Abraham	Feingold		
Bond	Hutchison	Baucus	Kennedy	Allard	Wellstone		
Brownback	Jeffords	Biden	Kerrey	Ashcroft			
Burns	Kempthorne	Bingaman	Kerry	Campbell			
Chafee	Lott	Boxer	Kohl	Coverdell			
Coats	Lugar	Breaux	Landrieu	Faircloth			
Cochran	McCain	Bryan	Lautenberg	Helms			
Collins	McConnell	Bumpers	Leahy	Inhofe			
Craig	Murkowski	Byrd	Levin	Kyl			
D'Amato	Roberts	Cleland	Lieberman	Mack			
DeWine	Roth	Conrad	Mikulski	Nickles			
Domenici	Santorum	Daschle	Moseley-Braun	Sessions			
Enzi	Shelby	Dodd	Moynihan	Smith, Bob			
Frist	Smith, Gordon	Dorgan	Murray	Thompson			
Gorton	Snowe	Durbin	Reed				
Gramm	Specter	Feinstein	Reid				
Grams	Stevens	Ford	Robb				
Grassley	Thomas	Glenn	Rockefeller				
Gregg	Thurmond	Graham	Sarbanes				
Hagel	Warner	Harkin	Torricelli				
Hatch		Hollings	Wyden				
		Inouye					

EXPLANATION OF ABSENCE:
1—Official Business
2—Necessarily Absent
3—Illness
4—Other

SYMBOLS:
AY—Announced Yea
AN—Announced Nay
PY—Paired Yea
PN—Paired Nay

- the Secretary of the Treasury would report, within 30 days of enactment of this Act, that the IMF had agreed to provide timely access to the General Accounting Office to information and documents relating to the IMF's operations, program and policy reviews and decisions regarding stand-by agreements, and other uses of IMF resources;
- the President would establish an advisory commission to study and report within 180 days on the value, if any, of the IMF, and on the advisability of merging it with the World Bank and the World Trade Organization;
- within 180 days of the above commission's report, the President would call for a meeting of the member countries of the above organizations to consider their structure, management, and activities, their possible merger, and their capacity to contribute to exchange rate stability and economic growth and to respond effectively to financial crises;
- reporting requirements would be placed on loans, including rules on capitalization ratios, reserves, deposit insurance, transparency, repayment timetables, and timetables by which the recipients would be free of all IMF debt; such data would be provided for South Korea, Indonesia, Thailand, and the Philippines within 30 days of enactment of this Act;
- the United States would oppose any IMF loan unless the Secretary of the Treasury, at least 14 days prior to giving the loan, certified that the recipient had not given support to or underwritten loans for the semiconductor, steel, automobile, shipbuilding, or textile and apparel industries, and that the recipient was complying or working on complying on a specific timetable with conditions on IMF loans in effect after July 1, 1997; and
- the United States would be required to take into consideration whether a country had restrictive trade practices and barriers against U.S. goods and services when considering whether to support an IMF loan to that country.

Those favoring the amendment contended:

The United States' economy is inextricably entwined by trade with all the economies of the world. Any large changes in any of the major world markets will automatically have large repercussions in the United States. The IMF exists to dampen large changes in markets. For the past 50 years, the IMF has served as the lender of last resort. When a country, usually through foolish or venal fiscal, monetary, and/or trade policies, has brought itself to the brink of insolvency, the IMF has stepped in to restore order. It has loaned money, but it has also imposed strict conditions in order to make certain the loans are repaid. The United States has put tens of billions of dollars into the IMF, but it has earned interest on that money and it has not lost $1 in 50 years.

The IMF is severely undercapitalized. Historically, a comfortable liquidity ratio of approximately 130 percent has been maintained. The lowest that level has ever fallen is 33 percent. Right now it is at 47 percent, and a loan of just $15 billion would drop it to 33 percent. Last year, even before the IMF lent South Korea $20 billion, Thailand $10 billion, and Indonesia $5 billion, the 182 member states of the IMF had decided to increase the reserves. Under IMF rules, each member provides a set percent of the IMF's capital, and members responsible for at least 85 percent of that capital must agree to an increase before it can go into effect. The United States has the largest share, 17 percent. In other words, if the United States does not agree to an increase, the rest of the world cannot add money to shore up the IMF either because the 85-percent threshold will not be met.

This bill will add $18 billion to the IMF. Other countries will then add in capital as well. Though many people believe that this money will be immediately loaned to Asian countries that have recently been in severe financial difficulties, we do not expect that result. The situation in those countries has appeared to have stabilized. Adding this money will make it even less likely that further loans will be needed. If investors know that there are ample IMF funds to prevent a second collapse in Asia, there will be a much smaller possibility of a panic in which capital is withdrawn.

Nearly all Senators believe that the IMF has made mistakes in the types of conditions it has imposed on borrowers. The IMF has ensured that countries have met their obligations, but it has done so with policies that have had harsh results for their citizens and that have failed to make them adopt fundamental reforms to prevent future economic difficulties. As a result, many of the same corrupt and poorly led countries have been frequent borrowers from the IMF for decades. Therefore, to prevent this same cycle from continually recurring, most of the IMF funding given by this bill, $14.5 billion, will be given only if two conditions are met. First, the major IMF contributors must agree to work on getting the IMF to condition loans on the removal of trade barriers, and second, they must agree to work on getting the IMF to condition loans on the recipient countries eliminating government lending at favorable non-commercial rates and government subsidies to favored industries. Once those conditions were met, the $14.5 billion would be provided. Additionally, for any IMF loan, the United States would be required by the McConnell amendment to use its influence to prohibit an IMF recipient from discriminating against foreign lenders in debt resolution proceedings. Further, the United States would work to give the General Accounting Office access to information on the IMF's operations so that it could perform an audit of the IMF. Finally, the amendment would impose new reporting requirements on IMF loans, and would require a review of international lending institutions.

This language has been painstakingly negotiated between those Senators who are very concerned about quickly adding funds to the IMF so as to preserve investor confidence in Asia and elsewhere, and those Senators who are concerned that past IMF policies have failed to require borrowers to make market reforms. We think a good compromise has been reached. The language goes about as far as is realistically possible. We think the other major IMF lenders will agree to the conditions, and certainly the United States will be able to use its influence to push for greater reforms. If we were to demand more, though, the IMF would not approve it, and the money would not be given. The danger then would be that the IMF would run out of money and countries in trouble would not be saved from collapse. The compromise in this bill is one that will both build up the IMF's reserves and start the long process of IMF reform. We are confident that it will meet with the approval of most Senators.

Those opposing the amendment contended:

Argument 1:

The IMF is the largest corporate welfare project in the world. It is designed to protect rich international banks by privatizing their profits and socializing their losses. It perpetuates corrupt and idiotic behavior of third world despots to the benefit of those despots and financiers worldwide, and to the loss of the American taxpayers and the poor citizens of those countries who are continually victimized by the arrangement. The Asian financial crisis, the Mexican bailout, and other economic disasters that have occurred in recent decades were not cured by the IMF, they were caused by the fact that it existed. The IMF is not the cure; it is the problem.

As an example, assume American bank X, or foreign bank X, has $10 billion to lend. It could lend it at prevailing interest rates to American entrepreneurs eager to build businesses in the United States, or it could lend the money to a developing nation at a much higher interest rate. That nation could use the money to subsidize a business owned by a family member of a corrupt political ruler of the country. That family member, and the corrupt ruler, could skim off part of the loan, and could use the rest to dump imports into the United States at below the cost of production, thus wiping out domestic producers of that product and costing thousands of American jobs. Once the loan has been squandered, and the country is unable to meet its loan payments, it goes to the IMF for a bailout. The IMF has tens of billions of dollars in its coffers that have been contributed by the American taxpayers. Americans have put that money into the IMF, and they have never lost a dollar, but once they have put that money into the IMF they have never taken a dollar out either. The IMF gives enough money to the country for it to be able to repay its loan to bank X, and imposes conditions on the country that force it to further impoverish its citizens to repay the IMF. Of course, not all developing nations are run poorly. Many times banks make loans to those nations and they use them responsibly and are able to repay the banks. As we said at the outset, profits are privatized and losses are socialized.

If it were not for this bank welfare system financial disasters of the magnitude of the Mexican and Asian bailouts would never occur. Fewer risky loans would be given in the first place, and when loans went sour banks would have to negotiate terms with the borrowers just as they do in the United States when a private party has trouble on a loan. Under the current system, countries that subsidize inefficient private industries, for instance, are never forced to stop those subsidies by the lenders. In the United States, when a business is poorly run and cannot meet its loan payments, it is common for a bank to write down part of the loan, and in return take over and sell all or part of the business, assume control of the business, or demand management reforms. If it were not for the IMF, the free market would end the widescale mismanagement and corruption that has occurred. It would never completely end it; lending (at least without government corporate welfare guarantees) entails risks. If banks are forced to face those risks, they will work to minimize them by insisting that borrowers follow sound economic practices.

Though we are not at all pleased that the IMF even exists, we told our colleagues that we would go along with their recapitalization plan if it required true market reforms by the IMF. However, the amendment they have offered would fail in that effort. It has been watered down to such an extent that all that it would now require is a "public commitment," not from the IMF, but from the G-7 lenders, to try to get the IMF to adopt market reforms. If this amendment were any weaker it could not run off the table. In our opinion, it is window-dressing to cover up the fact that it will be business as usual at the IMF. We strongly oppose sticking the American taxpayers with an $18 billion bill to give corporate welfare to huge American and foreign banks. We thus strongly urge the rejection of this amendment.

Argument 2:

The IMF has pursued policies that have had as their sole goal the repayment of debts by foreign nations. Other valuable goals, such as protecting workers' standards of living or protecting the environment, have been ignored. In fact, the IMF has often demanded actions that have severely hurt workers and damaged the environment. We will not support the IMF as long as it ignores social and environmental justice issues, and we therefore oppose this amendment.